

SEPTEMBER, 2025

INSIDER 
30 YEARS
1995-2025



The evolution of transfer pricing in the United Arab Emirates

by Dr Alicja Reuben

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Transfer pricing is a critical aspect of international business operations, especially for companies operating across borders, such as those engaged in UK-UAE transactions. It involves setting prices for transactions between related entities within a multinational corporation, including the sale of goods, services, intellectual property, and financial arrangements. Proper transfer pricing ensures that each jurisdiction receives its fair share of tax revenue, and it prevents profit shifting that could undermine a country's tax base.

Introduction to transfer pricing and the arm's length principle

At the core of transfer pricing is the arm's length principle, which stipulates that transactions between related entities must be conducted as if they were between unrelated parties under comparable circumstances. This principle is widely accepted by the Organisation for Economic Co-operation and Development (OECD), and it serves as the

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foundation for transfer pricing regulations worldwide.

Transfer pricing is influenced by several methodological approaches, including the comparable uncontrolled price method, the resale price method, the cost plus method, and profit split methods. Tax authorities,

such as HM Revenue & Customs (HMRC) in the UK and the Federal Tax Authority (FTA) in the UAE, scrutinise transfer pricing arrangements through documentation and audits to prevent artificial shifting of profits and to enforce compliance with transfer pricing legislation.

Another critical issue in UK-UAE operations pertains to the recognition of permanent establishments (PEs). Firms must navigate creating PEs under UK and UAE law, and consider anti-avoidance provisions. Activities in one country that create a fixed base or involve significant economic activity can constitute a PE, thereby creating a taxable presence. The recognition of a PE is crucial because profits attributable to a PE must be correctly allocated under transfer pricing rules, avoiding double taxation or

under-taxation issues.

Challenges in transfer pricing for UK-UAE businesses

The UK and UAE present a unique landscape for transfer pricing considerations. The UK has a well-developed transfer pricing regime aligned with OECD guidelines, emphasising comprehensive documentation and risk-based audits. In addition, the UK legislation covers only companies with a minimum turnover of EUR 50 million. In contrast, the UAE, a relatively new player in the

global tax arena, has historically relied on a free zone regime with limited direct tax enforcement. However, with the introduction of value-added tax (VAT) and other indirect taxes, the UAE has signalled its intention to align more closely with international tax standards, including transfer pricing.

Both jurisdictions have comprehensive three-tiered documentation requirements, including a master file, a local file and a country-by-country report (CbCR). For UK-UAE businesses, navigating these

differing regulatory environments requires meticulous attention to all aspects of documentation. However, pure adherence to legislation is not enough.

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Multinationals must also consider transfer pricing in their strategic planning. They must establish clear transfer pricing policies that reflect economic substance and adhere to both jurisdictions' requirements.

Under the UK-UAE double taxation treaty (effective 1998), companies engaged in UK-UAE transactions can benefit from reduced withholding tax rates, and they have clearer guidance on transfer pricing adjustments and dispute resolution.

For example, if a UK company transfers intellectual property to a UAE affiliate, the treaty helps prevent double taxation by establishing the source country's taxing rights and providing relief measures.

Implications for UK-UAE businesses

The interplay between transfer pricing regulations, bilateral tax treaties, and international standards creates a complex landscape for UK-UAE businesses.

Several key implications include:

Compliance and documentation: Companies must maintain detailed three-tiered transfer pricing documentation including a master file, a local file and a CbCR. In the case of the UAE, a disclosure form is also necessary.

Strategic tax planning: Firms must optimise tax efficiency. For instance, structuring royalty payments or service fees to maximise tax efficiency.

Impact of transfer pricing legislation: Implementation of various tax schemes may influence how firms structure transnational transactions and conduct compliance.

Future outlook

The evolving international tax landscape, driven by OECD initiatives such as Base Erosion and Profit Shifting (BEPS), will likely increase scrutiny on transfer pricing practices. Both the UK and UAE are expected to tighten their regulations and

enforcement measures, emphasising transparency and consistent documentation.

UK-UAE businesses should proactively review and update their transfer pricing strategies to align with international standards, optimise cross-border structuring, and mitigate risks. Collaborating with tax advisors and leveraging treaty benefits will be crucial in navigating the complexities of transfer pricing in this dynamic environment.

UK transfer pricing evolution
In the UK, a diverted profits tax was introduced in 2015. This is a targeted measure that counters contrived arrangements designed to avoid profits being taxed in the UK.

It is a standalone tax, though it borrows many of the principles of the transfer pricing and permanent establishment rules.

UK transfer pricing legislation is contained within Part 4 Taxation (International and Other) Provisions Act 2010 (TIOPA 10). In addition, the UK diverted profits tax legislation is contained within Part 3 Finance Act 2015 (FA 15). Further, the UK permanent establishment legislation is contained within section 5 and 19-32 of Corporation Tax 2009 (CTA 09), and sections 1141-1153 of Corporation Tax Act 10 (CTA 10).

The HMRC consulted on proposals to reform the UK's legislation on transfer pricing, permanent establishments, and diverted profits tax

in the summer of 2023, and issued a summary of responses in January 2024. This legislation, finalised in April 2025, had an impact on participation conditions, exempt domestic transactions, valuing intangibles, removal of sanctioning TP determinations, and clarified that OECD principles must be followed with respect to financial transactions. It is important to note that dual tax conventions may override diverted profits tax in certain circumstances.

Conclusion

Transfer pricing remains a fundamental aspect for international businesses, notably those involved in UK-UAE transactions. Anchored by the arm's length principle and reinforced by bilateral treaties,

effective transfer pricing management ensures compliance, minimises double taxation, and supports sustainable cross-border operations.

For UK-UAE businesses, understanding and applying these principles is essential not only for legal adherence but also for strategic financial planning. As international tax standards continue to evolve, proactive approaches – such as maintaining thorough documentation, leveraging treaty benefits, and consulting with tax professionals – will be crucial in navigating the complexities of transfer pricing in the UK and UAE.

Embracing transparency and aligning practices with OECD guidelines will position businesses

to effectively manage risks and capitalise on opportunities within this dynamic global tax environment.

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